

to track indirect cost effects. This is an important property given the desirability of minimizing the amount of common-cost allocations (via arbitrary accounting convention) that is required to provide rates consistent with viability. The bottom-up approaches upon which the FCC has relied in setting its cost proxies are not particularly well-suited to address this problem.

We believe that a top-down approach such as the one we have utilized can serve as a "reality check" on the bottom-up models currently being used in federal and state regulatory proceedings. Our model is a potentially valuable tool for state commissions to use in arbitrations and related cost proceedings to evaluate the reasonableness of various parties' cost studies. We recommend that federal and state regulators undertake a careful effort to reconcile the disparate results obtained using the different approaches to cost estimation.



Public Utility Commission of Texas

1701 N. Congress Avenue
P. O. Box 13326
Austin, Texas 78711-3326
512 / 936-7000 • (Fax) 936-7003

Pat Wood, III
Chairman

Robert W. Gee
Commissioner

Judy Walsh
Commissioner

January 29, 1997

Office of the Secretary
Federal Communications Commission
1919 M. Street, N.W., Room 222
Washington, D.C. 20554

RE: CPD Docket No. 97-2
In the Matter of
The Use of Computer Models for
Estimating Forward-Looking
Economic Costs: A Staff Analysis

RECEIVED

FEB 3 1997

REG MAIL ROOM

To the Secretary:

Enclosed herewith for filing with the Commission are an original plus four copies of the Comments of the Public Utility Commission of Texas in the above captioned matter. We are also providing one copy to ITS as indicated in the Public Notice. We are submitting an electronic copy of the Comments, without Attachments, to Wanda M. Harris.

Please acknowledge receipt by affixing an appropriate notation on the duplicate copy of this letter furnished herewith for that purpose and returning the same to the undersigned in the enclosed, self-addressed envelope.

Sincerely,

A handwritten signature in cursive script that reads "Vicki Oswalt".

Vicki Oswalt
Chief, Office of Policy Development

cc: Wanda M. Harris
ITS, Inc.



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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of

**The Use of Computer Models for
Estimating Forward-Looking
Economic Costs: A Staff Analysis**

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CPD Docket No. 97-

RECEIVED

FEB 3 1997

MAIL ROOM

**COMMENTS OF
THE PUBLIC UTILITY COMMISSION OF TEXAS**

**Pat Wood, III, Chairman
Robert W. Gee, Commissioner
Judy Walsh, Commissioner**

January 29, 1997

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of	§	
	§	
The Use of Computer Models for	§	CPD Docket No. 97-2
Estimating Forward-Looking	§	
Economic Costs: A Staff Analysis	§	

**COMMENTS OF
THE PUBLIC UTILITY COMMISSION OF TEXAS**

I. Introduction

1. On January 9, 1997, the FCC's Common Carrier Bureau (CCB) released a Public Notice (Notice) and a CCB Staff Analysis of Forward-Looking Economic Cost Proxy Models.¹ In the Notice, the CCB requested comments on the issues raised in the paper. The Public Utility Commission of Texas (Texas PUC), having been given general regulatory authority over public utilities within our jurisdiction in Texas, hereby submits these Comments on the CCB Staff Analysis. In the following pages we make reference to Comments we have filed in response to two relevant FCC Dockets: CC Docket No. 96-262, Access Charge Reform, and CC Docket No. 96-45, Federal-State Joint Board on Universal Service. Copies of our responses in those dockets are included in this response as Attachments 1 and 2.

¹ The CCB Staff Analysis is based on examination of the following three models: The Cost Proxy Model (CPM), submitted to the FCC by Pacific Telesis Group on June 7, 1996; The Benchmark Cost Model 2 (BCM2), submitted by Sprint Corp. and U.S. West, Inc., on July 24, 1996; and Hatfield 2.2.2, submitted by AT&T and MCI in May, 1996.

II. Criteria for Evaluating the Utility of Economic Cost Models

2. The CCB Staff Analysis discusses the following criteria for evaluating cost models: use of forward-looking economic cost as a basis for pricing; the ability to measure the costs relating to a narrowband network; use of proxy models for multiple objectives; consistency with independent evidence; potential for independent evaluation; and flexibility.²

3. *Use of Forward-Looking Economic Cost as a Basis for Pricing.* The CCB believes that prices based on forward-looking economic costs provide the best signals for market entry, investment and innovation. The Texas PUC agrees with the CCB Staff Analysis regarding use of forward-looking costs rather than sunk or historically-incurred costs as a basis for pricing.

4. *The Ability to Measure the Costs Relating to a Narrowband Network.* The CCB believes that a model used for pricing services and unbundled network elements should be able to estimate the full stand-alone costs of network elements necessary for delivering "traditional voice telecommunications service and narrowband data services."³ The Texas PUC agrees with the use of TELRIC methodology. We believe that the costing principles in Texas P.U.C. Substantive Rule §23.91 can be applied in a manner consistent with the costing methodology described in CC Docket No. 96-98 (Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order) and have ordered its use to determine costs and set rates in some cases.⁴ Subst. R. §23.91 requires cost studies of basic network functions (BNF), services and groups of services.

² *The Use of Computer Models for Estimating Forward-Looking Economic Costs, A Staff Analysis*, (CCB Staff Analysis) January 9, 1997 at ¶8-16.

³ *Ibid.* at ¶10.

⁴ *Comments of the Public Utility Commission of Texas*, CC Docket No. 96-262 at ¶55.

5. *Use of Proxy Models for Multiple Objectives.* The CCB Staff seeks comment on whether a single model can be used for multiple regulatory objectives, including a prescriptive approach to access reform, determining levels of universal service support in high cost areas, and the pricing of unbundled network elements.⁵ The Texas PUC believes that the regulatory objectives of these activities may be divergent enough to require different treatment.

6. In theory, one or more models might be used for multiple purposes. A model would avoid costly and controversial studies, and would tend to be more competitively neutral than studies based on a company's actual costs. In an era where the books and records of carriers are not open to regulatory scrutiny, models represent a reasonable alternative to actual cost studies. The original intent of using a cost proxy model on a geographically deaveraged basis was to determine the approximate cost of providing service to low density rural areas, and therefore to allow targeting of universal service support amounts to those specifically identified areas. Absolute precision is not required for that targeting. There is tolerance for overestimates or underestimates within reason, just as current support mechanisms are utilized as gross revenue streams in a company's accounts. Subsidy amounts for all census block groups (CBGs) will be aggregated into a broader revenue stream to the service provider (incumbent or competitor) to assist in defraying the cost of providing service to the region. When used for universal service targeting, a threshold rate or revenue may be used to calculate the support level, but the cost developed by the proxy model is not used to set a precise rate for a service. In the universal service context, the revenue stream resulting from the application of proxy costs is simply one of many revenue sources that must be considered in the ratemaking process.

⁵ CCB Staff Analysis at ¶11.

7. Modeled costs in either the access charge or unbundled element context, by contrast, must be more precise, as they will serve as the foundation for specific rates for specific service offerings. We believe company-specific costs should be used, to the extent possible, as a basis for setting rates for access services or unbundled elements.⁶ In a recent arbitration proceeding brought before the Texas PUC involving Southwestern Bell Telephone Company (SWBT), we determined that SWBT's forward-looking TELRIC computations (as required by our Subst. R. §23.91) were reasonable for setting unbundled element rates.⁷ However, our choice was conditioned on SWBT's cooperation in opening its cost studies for review by other parties. In the event that the SWBT studies are not opened for sufficient review, we would order the use of the Hatfield cost model for setting unbundled element rates.⁸

8. *Consistency with Independent Evidence.* CCB recognizes the need to validate model results for such things as costs of network elements, investment levels, loop length and input prices. The CCB Staff Analysis discusses several possible ways for validation, including: comparison of loop cost estimates with competitive bids; econometric studies; engineering studies for samples of CBGs; comparison to Automated Record Management Information Systems (ARMIS) data; or comparison of physical measures produced by the models with independent sources of such data.⁹ We encourage the CCB, and its representatives on the Joint Board Staff, to continue exploration of possible validation methods.

9. *Potential for Independent Evaluation.* The CCB states that the algorithms and judgments made in the proxy models should be clearly identified and explained so they can be

⁶ *Comments of the Public Utility Commission of Texas*, CC 96-262, January 22, 1997 at ¶54.

⁷ Texas PUC Docket Nos. 16189, 16196, 16226, 16285, and 16290, FTA96 §252 Arbitration Panel, Arbitration Award, November 7, 1996. The Arbitration Award is included in these Comments as Attachment 3.

⁸ *Ibid.* at ¶62.

⁹ CCB Staff Analysis at ¶12-14.

independently evaluated by state or federal regulators. The CCB Staff Analysis indicates that some precision in model results may be sacrificed to maintain proprietary information. The CCB is currently analyzing the trade-offs between use of general publicly-available data and specific proprietary data.¹⁰ The Texas PUC prefers use of open models and non-proprietary, verifiable input data. We have found that the best outcomes occur when parties have the opportunity to examine and debate issues openly.

10. *Flexibility.* The CCB Staff Analysis recognizes that the states may have access to different types of information that could be useful as inputs to the models. The CCB Staff believes that the models should be flexible enough to allow states to use this kind of data when it is available. The paper states that the more user-variable inputs a model has, the more useful it will be.¹¹ The Texas PUC agrees with CCB's statement about the flexibility of state-specific inputs to the models. We would like to emphasize that models that determine company-specific pricing should be even more flexible so as to reflect each company's individual cost structures.¹² In keeping with the principle of flexibility, we do not believe that the CCB should set variables for use in company-specific cost studies used for rate setting. With regard to the determination of universal service support levels, we again request that the FCC consider permitting regional variations of the nationwide benchmark.¹³

¹⁰ *Ibid.* at ¶15.

¹¹ *Ibid.* at ¶16.

¹² See *Comments of the Public Utility Commission of Texas*, CC Docket No. 96-262, January 22, 1997 at ¶54.

¹³ *Further Comments of the Public Utility Commission of Texas*, CC Docket 96-45, December 12, 1996 at ¶8.

III. Model Structure and Input Requirements

11. The remainder of the CCB Staff Analysis is dedicated to a detailed discussion of the structure and input requirements of current cost proxy models. The paper examines the underlying structure of the models, modeling of network investments, and modeling of expenses.

12. *Underlying Structure of Models.* Each of the current models assumes that existing wire centers will form the basis of the telephone network for the foreseeable future. The CCB is investigating whether models should use CBGs, or even smaller grids, as the geographic unit of analysis. The CCB Staff acknowledges the importance of correctly identifying customer demand patterns (first and second residential lines, business lines, public access lines and special access lines) within a geographic area. The paper also recognizes that the models develop networks that are not comprised of the same components or elements. The CCB Staff is evaluating the appropriate set of network elements that models should incorporate when pricing interstate access, supported services or unbundled network elements.¹⁴

13. We concur with the CCB that the existing approach that assumes the location of existing wire centers appears reasonable for now, but that it may become irrelevant in the future. Small geographic units of analysis such as CBGs are appropriate for universal service modeling because they allow for narrow identification of areas in need of funding. We look forward to reviewing the results of the CCB's evaluation of how second residential lines and business lines should be incorporated into the models. While we see some merit in dictating a specific set of network elements to be included in the models, we caution against the creation of an inflexible

¹⁴ CCB Staff Analysis at ¶17-30.

standardized network that would not accurately reflect state-specific or company-specific environments.

14. *Modeling of Network Investments.* In this section, the CCB Staff paper examines the methodology used by each model to estimate the quantity and type of physical network facilities that a carrier would deploy. The facilities include: loop feeder and distribution plant; loop plant fill factors; loop plant cable and structures; switching investment; and other investments. The paper identifies loop plant as the largest portion of a network's investment.¹⁵

15. We feel that use of a standardized set of elements could be helpful in understanding the differences between each model and may prove invaluable in selecting the model (or models) to use for setting prices for unbundled network elements or access charges, and determining the level of universal service support. We restate our concern about maintaining the flexibility of specific inputs when setting actual prices and support levels. Open models with publicly-available data are preferable when it comes to determining correct fill factors. The ability to debate, evaluate and share information among parties would produce more valid inputs.

16. *Modeling of Expenses.* This section of the paper describes each model's methodology for computing capital expenses, operating expenses, and the treatment of joint and common costs. The CCB Staff believes that models should rely on market-determined costs of debt and equity and use debt-equity ratios chosen by firms.¹⁶ The CCB Staff's approach to determining a forward-looking cost of capital appears to be reasonable. We anticipate the results from CCB Staff's evaluation of alternative approaches to determining the cost of capital.

¹⁵ *Ibid.* at ¶33.

¹⁶ *Ibid.* at ¶57.

17. The CCB Staff discussion of capital costs includes a segment on depreciation. The CCB Staff believes that depreciation should reflect projected economic lives of investments rather than historical plant lives.¹⁷ The economic lives of investments tend to be shorter than historical plant lives because technical innovation may make existing, functional equipment obsolete, leading to early replacement. The Texas PUC agrees with the use of economic life rather than historical life for the calculation of depreciation expenses. CCB Staff also raises the question of whether depreciation rates should differ depending on the services carriers will provide using the equipment.¹⁸ We believe that the models should reflect the definition of basic service for which the model is calculating support levels. This is an area that we believe requires further investigation, given the rapid pace of technological change and the evolving definition of basic service.

18. The CCB Staff Analysis states that non-capital related expenses account for over one-half of the total annual cost of the network in some models.¹⁹ The CCB is evaluating specific alternatives to the annual charge factors and accounting-based methods used by the models. We encourage the CCB to continue its investigation of alternative methods of estimating these expenses.

19. The CCB staff believes that the model developers do not sufficiently justify the models' calculation of forward-looking joint and common costs. BCM2 calculates common costs on a per-line basis. Hatfield 2.2.2 calculates common costs as a percentage of aggregate total costs. The CCB Staff is examining alternative methods that may yield appropriate levels of

¹⁷ *Ibid.* at ¶61.

¹⁸ *Ibid.* at ¶62.

¹⁹ *Ibid.* at ¶64.

joint and common costs.²⁰ For calculating support levels for universal service, a per-line allocation may tend to load common costs on urban areas while a percentage-based allocation may tend to load common costs on rural areas. In the SWBT arbitration cases, the Texas PUC ordered that the allocation of joint and common costs for the pricing of unbundled network elements be based upon a single, forward-looking, common cost allocation factor.²¹ The specific value of the common cost allocation factor will be determined in a future proceeding. For calculating prices of unbundled network elements, use of a single factor allocates a share of common costs to each element. Service providers are not unduly disadvantaged by the elements they purchase, and the underlying carrier cannot load common costs onto essential elements to discourage market entry. We support a methodology for computing a general forward-looking common cost allocation factor that is based on forward-looking overheads and revenues.²²

IV. Conclusion

20. We were encouraged by the debate regarding cost proxy models at the FCC's recent workshop.²³ Model designers are attempting to address parties' concerns about many of the same issues raised in the CCB Staff Analysis. Modifications to BCM2, Hatfield 2.2.2, and the Telecom Economic Cost Model²⁴ are scheduled to be filed on January 31, 1997. We look forward to examining how those iterations resolve some of the outstanding concerns. We will

²⁰ *Ibid.* at ¶71-72.

²¹ Texas PUC Docket Nos. 16189, 16196, 16226, 16285, and 16290, FTA96 §252 Arbitration Panel, Arbitration Award, November 7, 1996 at ¶72.

²² *See Comments of the Public Utility Commission of Texas*, CC Docket No. 96-262, January 22, 1997 at ¶58-59.

²³ The Federal-State Joint Board on Universal Service held a three-day workshop on proxy cost models from January 13-15, 1997.

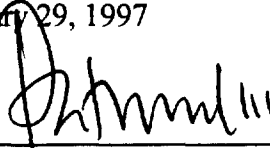
²⁴ The Telecom Economic Cost Model (TECM) was submitted to the Federal-State Joint Board on January 7, 1997 by the New Jersey Division of the Ratepayer Advocate. The TECM was created by Ben Johnson Associates, Inc.

follow with interest the CCB's continuing investigations into the use of computer modeling for estimating forward-looking economic costs.

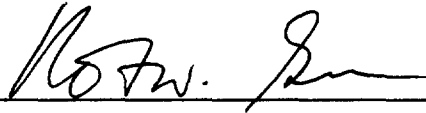
Respectfully submitted,

Public Utility Commission of Texas
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Austin, Texas 78711-3326

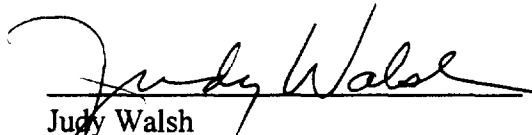
January 29, 1997



Pat Wood, III
Chairman



Robert W. Gee
Commissioner



Judy Walsh
Commissioner

**COMMENTS OF
THE PUBLIC UTILITY COMMISSION OF TEXAS**

ATTACHMENT 1:

Further Comments of the Public Utility Commission Of Texas, CC Docket No. 96-45



Public Utility Commission of Texas

1701 N. Congress Avenue
P. O. Box 13326
Austin, Texas 78711-3326
512 / 936-7000 • (Fax) 936-7003

Chairman

Robert W. Gee
Commissioner

Judy Walsh
Commissioner

December 16, 1996

Project 12941

Office of the Secretary
Federal Communications Commission
1919 M. Street, N.W., Room 222
Washington, D.C. 20554

RE: CC Docket No. 96-45 (DA 96-1891)
In the Matter of
Federal-State Joint Board on
Universal Service

To the Secretary:

Enclosed herewith for filing with the Commission are an original plus four copies of the Further Comments of the Public Utility Commission of Texas in the above captioned matter. We are also providing an electronic copy of the filing as requested, and copies to ITS and individuals indicated on the service list.

Please acknowledge receipt by affixing an appropriate notation on the duplicate copy of this letter furnished herewith for that purpose and returning same to the undersigned in the enclosed, self-addressed envelope.

Sincerely,

Vicki Oswalt
Director, Office of Policy Development

cc: ITS, Inc.



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COMMISSION SECRETARY (512) 936-7180
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**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of

**Federal-State Joint Board on
Universal Service**

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CC Docket No. 96-45

**FURTHER COMMENTS OF THE
PUBLIC UTILITY COMMISSION OF TEXAS**

**Pat Wood, III, Chairman
Robert W. Gee, Commissioner
Judy Walsh, Commissioner**

December 12, 1996

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of

**Federal-State Joint Board on
Universal Service**

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CC Docket No. 96-45

**FURTHER COMMENTS OF THE
PUBLIC UTILITY COMMISSION OF TEXAS**

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Executive Summary

The Public Utility Commission of Texas (Texas PUC) herein provides its Further Comments on the Recommended Decision of the Federal-State Joint Board and the Public Notice of the Federal Communications Commission (FCC) on the revision of federal support mechanisms for universal service.

The Texas PUC, along with most state regulators, are focusing on the need for universal service safeguards in the new era of telecommunications competition. We are generally in agreement with the Joint Board's Recommended Decision, with emphasis and exceptions as noted in these Further Comments. We support the inclusion of the new principle of competitive neutrality, as this principle is essential in the new competitive environment.

We urge the FCC to depart from the Recommended Decision regarding support for designated services, and adopt a plan that supports all single-line residential and business customers in high cost areas. We support the recommendation to convene a Joint Board within the next five years to monitor and evaluate the success and/or concerns of the universal service program.

The Texas PUC supports the Joint Board's recommendation that the states should exercise primary responsibility for determining the affordability of rates, and asks the FCC for clarification of the states' role in this regard. We further support the recommendations concerning state involvement in determining carrier eligibility for the receipt of support.

The Joint Board recommends the use of forward-looking incremental costs as the basis for determining the level of universal service support to be received for providing service to high-cost areas of the nation, and the Texas PUC agrees. However, we have concerns with the calculation of the nationwide threshold based on basic, discretionary, and access charge

revenues. The Joint Board's recommendation for the high-cost support plan includes a specific phase-in plan for rural companies. We urge the FCC to consider an additional option that would allow rural companies to maintain their current level of support until the state designates another carrier to be eligible within the same area.

The Texas PUC generally supports the Joint Board's recommendations on issues involving support programs for low-income customers and for schools and libraries. On the issues of schools, libraries, and health care providers, we urge the FCC to review the programs that have been established in Texas for telecommunications services provided for these entities.

The Joint Board recommends that there be no increase in the Subscriber Line Charge at this time, and the Texas PUC concurs. We look forward to participating in the FCC's access charge proceeding in the near future.

The Joint Board recommends that the funding assessments for the interstate universal service fund be based on the combined interstate and intrastate revenues of telecommunications providers. The Texas PUC is continuing its investigation into universal service issues including consideration of funding mechanisms; therefore, we have not yet formulated our position on this issue. However, the Texas PUC believes that there are certain policy issues that the FCC should consider and that, if the FCC assesses both interstate and intrastate revenues, it is appropriate for the states to adopt a similar funding base. The Joint Board has recommended the establishment of a universal service advisory board to oversee the activities of the fund administrator, and the Texas PUC agrees with this recommendation.

The Texas PUC encourages the FCC to remain sensitive to the unique circumstances facing individual states. Decisions at the federal level should not hinder the ability of the states to develop their own workable and viable state universal service programs.

FURTHER COMMENTS OF THE PUBLIC UTILITY COMMISSION OF TEXAS

I. Introduction

1. With the creation of the Federal-State Joint Board in this proceeding, the Federal Communications Commission (FCC or Commission) acted on one of the most wide-reaching aspects of the federal Telecommunications Act of 1996 (FTA96)¹ -- the overhaul of the nation's method of promoting and supporting universal telecommunications service. On November 7, 1996, the Federal-State Joint Board responded to the charge of the FCC and the FTA96 by adopting a Recommended Decision regarding issues related to universal service.² In that decision, the Joint Board made numerous recommendations on universal service issues, including topics relating to: universal service principles; services and carriers eligible for support; support mechanisms for rural, high cost, and insular areas; support for low income consumers; affordability; support for schools, libraries, and health care providers; administration of support mechanisms; and common line cost recovery.

2. Through a Public Notice³ released November 18, 1996, the FCC has requested comments on the Joint Board's Recommended Decision, with specific emphasis on several questions raised by the Joint Board. The Public Utility Commission of Texas (Texas PUC), having been given general regulatory authority over public utilities within our jurisdiction in Texas, hereby submits these Further Comments on universal service issues most directly related to state regulatory policy.

¹ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (to be codified at 47 U.S.C. §§ 151 *et seq.*).

² *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision, FCC 96J-3 (November 7, 1996).

³ *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Public Notice, DA 96-1891, (November 18, 1996).

3. At the outset, the Texas PUC must recognize and commend the members of the Joint Board and their staff, who have done a masterful job of addressing the complex issues contained within the scope of universal telecommunications service within the incredibly tight time requirements imposed in the FTA96. The Texas PUC is generally in agreement with the findings of the Recommended Decision, with emphasis and exceptions as noted in these Further Comments.

II. Goals and Principles of Universal Service Support Mechanisms

4. The Recommended Decision of the Joint Board first addresses the provision of the FTA96's §254(b)(7) allowing the Board and the FCC to determine principles in addition to those listed in §254(b) that are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with other provisions of the FTA96. The Joint Board recommends the addition of a seventh substantive principle -- competitive neutrality -- that would guide the application of universal service support mechanisms and rules.⁴

5. The Public Notice seeks comment on how the additional principle of competitive neutrality should be defined and applied within the context of universal service. The Texas PUC suggests that this principle, like the other guiding principles adopted in the statute, must permeate throughout the FCC's decisions; from issues regarding supported services to carrier eligibility and fund assessments.

⁴ Recommended Decision at 23.

III. Definition of Universal Service: What Services to Support

6. The Joint Board recommended that the support for designated services provided to residential customers be limited to those services on a single connection to a subscriber's principal residence,⁵ and that a reduced amount of support be extended to single-connection businesses in high cost areas.⁶ The Texas PUC encourages the FCC to adopt a plan that provides support to all residential customers in high cost areas. While we agree with the Joint Board that support for a single residential connection is consistent with the goals of universal service, we are concerned that the administrative requirements resulting from the Joint Board's proposal to support only one residential line at the customer's principal residence would be unduly burdensome to telecommunications providers and customers alike. For example, telecommunications providers could be placed in the role of determining which customers are eligible for supported lines and consumers could be required to provide proof that they qualify for the supported lines. Additional concerns exist regarding the determination of the customer's principal residence, especially when the principal residence may be in a different state than the one in which service is being requested. We believe that these types of administrative difficulties outweigh any arguments that the support for a single connection is sufficient for providing complete access to telecommunications and information services and, therefore, universal service. We are also wary of the local rate design pressures that may result from the Joint Board's proposal. As an example, the potential application of different rates to additional lines creates the real possibility of consumer confusion and frustration. We agree that single-line business customers should receive a reduced level of support.

⁵ Recommended Decision at 89.

⁶ Recommended Decision at 91-92.

7. The Joint Board recommends that the FCC convene a Joint Board no later than January 1, 2001 to revisit the definition of universal service.⁷ The Texas PUC supports this recommendation, and we urge the FCC to continue evaluation of reasonable reporting and monitoring methods that will allow all parties to evaluate the success and/or concerns of the universal service program on an ongoing basis.

IV. Affordability

8. Although the Joint Board concluded that a determination of affordability must take into account consideration of both rates and other factors,⁸ the Joint Board has included a finding that local rates are generally affordable,⁹ and has clearly rejected the use of an affordability determination in arriving at a benchmark for use in developing the federal high cost funding program.¹⁰ In addition, the Joint Board recommended that the states should exercise primary responsibility, consistent with FCC guidelines, for determining the affordability of rates.¹¹ While affordability is mentioned further in the Recommended Decision on issues involving low-income support and support for educational and other discount plans, the Recommended Decision's allusions to the "primary responsibility" of the states in the determination of affordability may have little meaning in actual practice. The Texas PUC urges the FCC to clarify the role of the states in this regard, particularly if it is the intent of the FCC to consider permitting regional variations of the nationwide benchmark to address specific

⁷ Recommended Decision at 110.

⁸ The Recommended Decision specifically mentions local calling area size, income levels, cost of living, population density, and other socioeconomic indicators as factors that may affect affordability.

⁹ Recommended Decision at 133, 769.

¹⁰ Recommended Decision at 309 - 317.

¹¹ Recommended Decision at 131.

affordability issues. At a minimum, the FCC should not preclude an individual state's use of affordability factors in establishing its own parallel intrastate universal service support mechanism.

V. Carriers Eligible for Universal Service Support

9. The Joint Board recommends that the FCC adopt, without elaboration, the criteria established by FTA96 for eligibility of carriers to receive universal service support. That is, a recipient must be a common carrier and offer the services supported by the universal service plan, either via its own facilities or in conjunction with the resale of facilities owned by another carrier, and must advertise the availability and charges of its services. The recommendation further concludes that it is unnecessary for the FCC to impose jurisdictionally symmetrical regulatory obligations in addition to those contained in FTA96. The Texas PUC supports the Joint Board's recommendation in this regard, and strongly supports the right of individual states to impose competitively-neutral and technologically-neutral conditions on carriers wishing to become eligible for support from the federal and state universal service funds.

VI. High Cost Support

10. The Joint Board recommends basing universal service support for non-rural, eligible carriers on the forward-looking cost of providing the network used to furnish the services included in the definition of those to be supported under the universal service plan. The Joint Board further recommends the use of a proxy model to develop the level of support, but declines to recommend the use of a particular model, recommending instead that the FCC continue to work with state regulatory commissions to develop an adequate model. The Texas PUC supports

the use of forward-looking, long run incremental costs using least-cost technologies, such as proxy models or the Texas PUC's Substantive Rule §23.91,¹² to determine the cost of providing the supported services. We further agree that additional evaluation and investigation must be completed before settling on the use of a specific methodology. However, we support the targeting of support as narrowly as is practical and believe that any methodology selected should be capable of such targeting. We support the use of census block groups as areas to be used for targeting, as they offer the benefits of being relatively small and independent of the incumbent local exchange carriers' service areas. We intend to be actively involved in workshops and informal work groups on the issues associated with the proxy models.

11. In order to determine the level of support provided to eligible carriers for serving high-cost areas, the Joint Board recommends the use of a nationwide benchmark of average revenues per line to be used with the proxy model. The recommendation further describes the revenues per line as including revenues generated by local, discretionary, access services, and other services, divided by the number of loops served.¹³

12. The Texas PUC is concerned about the Joint Board's recommendation on the inclusion of discretionary and access service revenues in the computation of the nationwide benchmark for the determination of high cost support for at least four reasons. First, our experience thus far with the proxy models leaves us less than confident that the costs of non-basic local and access services are included in the cost models, and we believe the services reflected in the costs must match as closely as possible the services producing the revenues.

¹² *Comments of the Public Utility Commission of Texas*, CC Docket No. 96-45, April 3, 1996, Attachment V.

¹³ Recommended Decision at 310.